

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE  
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

October 1, 1997 through September 30, 1999

## EXECUTIVE DIGEST

# DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

INTRODUCTION	This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Consumer and Industry Services (CIS) for the period October 1, 1997 through September 30, 1999.
AUDIT PURPOSE	This financial audit of CIS was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> .
BACKGROUND	CIS was established on May 15, 1996 by Executive Order 1996-2, which merged the former Department of Commerce, Department of Labor, and other licensing and regulatory agencies from the former Departments of Mental Health, Public Health, and Social Services. CIS's overall mission* is to support the health, safety, economic, and cultural well-being of the public through services to

\* See glossary at end of report for definition.

and regulation of the activities of organizations and individuals.

The Finance and Administrative Services Bureau is responsible for the accounting and federal grant management of CIS's General Fund operations. CIS's General Fund expenditures and operating transfers were approximately \$206 million and \$203 million in fiscal years 1998-99 and 1997-98, respectively. As of September 30, 1999, CIS had 3,011 full-time employees.

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AUDIT OBJECTIVES  
AND CONCLUSIONS

**Audit Objective:** To audit CIS's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

**Conclusion:** We expressed an unqualified opinion\* on CIS's financial schedules. In addition, we expressed an unqualified opinion on CIS's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

**Audit Objective:** To assess and report on CIS's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control\* over financial reporting, based on our audit of the financial schedules.

**Conclusion:** Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control

\* See glossary at end of report for definition.

**over financial reporting did not disclose any material weaknesses.\***

**In addition, our assessment indicated that CIS was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.**

**Audit Objective:** To assess and report on CIS's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

**Conclusion:** Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to allowable activities, nursing home surveys and complaint investigations, and subrecipient monitoring that are required to be reported under OMB Circular A-133 (Findings 1 through 3). Also, our assessment of internal control over compliance applicable to each major federal program identified two material weaknesses:

- CIS's internal control did not ensure that charges made to the federal Foster Care - Title IV-E Program were for allowable activities in compliance with federal requirements (Finding 1).

CIS agreed with the corresponding recommendation and will obtain a final resolution after discussions with the Family Independence Agency and the Office of the Budget, Department of Management and Budget.

\* See glossary at end of report for definition.

- CIS's internal control did not ensure that annual nursing home surveys and nursing home complaint investigations were completed in accordance with federal regulations (Finding 2).

CIS agreed with the corresponding recommendation and informed us that it has implemented corrective action to address the internal control weaknesses noted.

We also identified a reportable condition\* related to subrecipient monitoring (Finding 3).

AUDIT SCOPE	<p>Our audit scope was to examine the financial and other records of the Department of Consumer and Industry Services for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States; and OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.</p>
AGENCY RESPONSES AND PRIOR AUDIT FOLLOW-UP	<p>Our audit report contains 3 findings and 3 corresponding recommendations. CIS's corrective action plan indicated that it agreed with the recommendations and that it had implemented or will implement all of them.</p> <p>As disclosed in CIS's summary schedule of prior audit findings, CIS complied with all 3 of the prior Single Audit* recommendations.</p>

\* See glossary at end of report for definition.

October 27, 2000

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Consumer and Industry Services for the period October 1, 1997 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Consumer and Industry Services financial schedules and notes to the financial schedules, supplemental financial schedules, other required schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

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## Description of Agency

The Department of Consumer and Industry Services (CIS) was established on May 15, 1996 by Executive Order 1996-2, which merged the former Department of Commerce, Department of Labor, and other licensing and regulatory agencies from the former Departments of Mental Health, Public Health, and Social Services. CIS's overall mission is to support the health, safety, economic, and cultural well-being of the public through services to and regulation of the activities of organizations and individuals.

As of September 30, 1999, CIS was organized into 23 regulatory and service agencies:

1. Council for Arts and Cultural Affairs
2. Bureau of Commercial Services
3. Bureau of Construction Codes
4. Corporation, Securities, and Land Development Bureau
5. Bureau of Employment Relations
6. Michigan Employment Security Board of Review
7. Financial Institutions Bureau
8. Office of Fire Safety
9. Bureau of Health Services
10. Bureau of Health Systems
11. Office of Hearings
12. Michigan State Housing Development Authority
13. Insurance Bureau
14. Office of Legal Services
15. Michigan Liquor Control Commission
16. Michigan Public Service Commission
17. Bureau of Regulatory Services
18. Bureau of Safety and Regulation
19. Michigan Tax Tribunal
20. Unemployment Agency
21. Workers' Compensation Appellate Commission
22. Workers' Compensation Board of Magistrates
23. Bureau of Workers' Disability Compensation

These agencies, in turn, were supported by the following administrative units:

- 1) Affirmative Action and Equal Employment Opportunity Office
- 2) Finance and Administrative Services Bureau
- 3) Office of Human Resources
- 4) Internal Audit
- 5) Media Relations and Communications
- 6) Office of Policy and Legislative Affairs
- 7) Bureau of Technology

Subsequent to our audit, Executive Order 2000-4, effective April 3, 2000, created the Office of Financial and Insurance Services as a type I agency within CIS. The Executive Order transferred all authority, powers, duties, functions, and responsibilities of the Insurance Bureau and the Financial Institutions Bureau to the Office of Financial and Insurance Services, and then abolished the Insurance Bureau and the Financial Institutions Bureau. The Executive Order also transferred all authority, powers, duties, functions, and responsibilities pertaining to the securities functions of the Corporation, Securities, and Land Development Bureau to the Office of Financial and Insurance Services.

The operations of CIS's various agencies and units are financed through the State's General Fund, several special revenue funds, several expendable trust funds, an enterprise fund, and an agency fund. Because the purpose of this audit was directed toward CIS's General Fund operations, CIS's non-General Fund operations were not included in the scope of this audit. The following CIS operations were excluded from the scope of our audit:

- (1) The Liquor Purchase Revolving Fund. This Fund accounts for the proprietary operations of the Michigan Liquor Control Commission. The Commission issues annual financial statements and obtains a biennial financial audit.
- (2) The Michigan State Housing Development Authority (MSHDA), including its federal financial assistance programs. MSHDA issues annual audited financial statements and also obtains a biennial Single Audit.

- (3) The Michigan Unemployment Compensation Fund, including federal financial assistance; the Michigan Employment Security Act - Administration Fund, including federal financial assistance; and the Michigan Employment Security Act Contingent Fund. These funds receive separate annual financial audits and a biennial Single Audit.
- (4) Various funds: Safety Education and Training Fund; Uninsured Employers' Security Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Second Injury Fund; Silicosis, Dust Disease, and Logging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation - Multiple Trust Funds; and Insurance Carrier Deposits Fund. These funds receive no federal financing and are periodically audited by the Office of the Auditor General.

The Finance and Administrative Services Bureau is responsible for the accounting and federal grant management of CIS's General Fund operations. CIS's General Fund expenditures and operating transfers were approximately \$206 million and \$203 million in fiscal years 1998-99 and 1997-98, respectively. As of September 30, 1999, CIS had 3,011 full-time employees.

Audit Objectives and Conclusions, Audit Scope,  
and Agency Responses and Prior Audit Follow-Up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Consumer and Industry Services (CIS) had the following objectives:

1. To audit CIS's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

**We expressed an unqualified opinion on CIS's financial schedules. In addition, we expressed an unqualified opinion on CIS's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.**

2. To assess and report on CIS's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

**Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.**

**In addition, our assessment indicated that CIS was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.**

3. To assess and report on CIS's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

**Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance related to allowable activities, nursing home surveys and complaint investigations, and subrecipient monitoring that are required to be reported under OMB Circular A-133 (Findings 1 through 3). Also, our assessment of internal control over compliance applicable to each major federal program identified two material weaknesses related to allowable activities and nursing home surveys and complaint investigations (Findings 1 and 2). We also identified a reportable condition related to subrecipient monitoring (Finding 3).**

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs\* .

#### Audit Scope

Our audit scope was to examine the financial and other records of the Department of Consumer and Industry Services for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The operations of CIS's various agencies and units are financed through the State's General Fund, several special revenue funds, several expendable trust funds, an enterprise fund, and an agency fund. Because the purpose of this audit was directed toward CIS's General Fund operations, CIS's non-General Fund operations were not included in the scope of this audit. The following CIS operations were excluded from the scope of our audit:

- (1) The Liquor Purchase Revolving Fund. This Fund accounts for the proprietary operations of the Michigan Liquor Control Commission. The Commission issues annual financial statements and obtains a biennial financial audit.

\* See glossary at end of report for definition.

- (2) The Michigan State Housing Development Authority (MSHDA), including its federal financial assistance programs. MSHDA issues annual audited financial statements and also obtains a biennial Single Audit.
- (3) The Michigan Unemployment Compensation Fund, including federal financial assistance; the Michigan Employment Security Act - Administration Fund, including federal financial assistance; and the Michigan Employment Security Act Contingent Fund. These funds receive separate annual financial audits and a biennial Single Audit.
- (4) Various funds: Safety Education and Training Fund; Uninsured Employers' Security Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Second Injury Fund; Silicosis, Dust Disease, and Logging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation - Multiple Trust Funds; and Insurance Carrier Deposits Fund. These funds receive no federal financing and are periodically audited by the Office of the Auditor General.

We considered CIS's internal control over compliance applicable to each major federal program and assessed CIS's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on CIS's summary schedule of prior audit findings. CIS's major federal programs are identified in Section I of the schedule of findings and questioned costs.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 3 findings and 3 corresponding recommendations. CIS's corrective action plan indicated that it agreed with the recommendations and that it had implemented or will implement all of them.

CIS's corrective action plan, which is included in this report, was prepared by CIS as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and

Department of Management and Budget Administrative Guide procedure 1280.02 require CIS to develop a formal response to our audit findings and recommendations within 60 days after the release of the audit report.

As disclosed in CIS's summary schedule of prior audit findings, CIS complied with all 3 of the prior Single Audit recommendations.



# SCHEDULE OF FINDINGS AND QUESTIONED COSTS

## Section I: Summary of Auditor's Results

### Financial Schedules

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial schedules?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	Yes
Reportable condition identified that is not considered to be a material weakness?	Yes
Type of auditor's report issued on compliance for major programs:	
Unqualified for all major programs except for the Medicaid Cluster and Foster Care - Title IV-E, which were qualified* .	
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

\* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
81.041	State Energy Program
93.777 and 93.778	Medicaid Cluster
93.575	Child Care and Development Block Grant
93.658	Foster Care - Title IV-E
93.991	Preventive Health and Health Services Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$1,668,196

Auditee qualified as a low-risk auditee\* ? No

## **Section II: Findings Related to the Financial Schedules**

We did not report any findings.

**The status of the finding reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.**

\* See glossary at end of report for definition

## Section III: Findings and Questioned Costs Related to Federal Awards

### **FINDING (630001)**

#### 1. Allowable Activities

U.S. Department of Health and Human Services	CFDA: 93.658 Foster Care - Title IV-E
Award Number: G9701MI1401 G9801MI1401	Award Period: 10/1/97 - 9/30/98 10/1/98 - 9/30/99
Pass-Through Agency: Family Independence Agency	Questioned Costs: \$976,535

CIS's internal control did not ensure that charges made to the federal Foster Care - Title IV-E Program were for allowable activities in compliance with federal requirements.

The Child Welfare Division is responsible for licensing and regulatory functions at child care institutions, child placing agencies, children's camps, adult foster care camps, and juvenile court-operated facilities throughout the State. Title 45, Part 1356, section 60(c) of the *Code of Federal Regulations* allows administrative activities for the recruitment and licensing of foster homes and child care institutions funded by the Foster Care - Title IV-E Program. However, Title 42, Section 672(c) of the *United States Code* places limitations on the types of eligible foster homes and child care institutions that may receive federal funds. As a result, the administrative activities that are charged to the grant must also meet the limitations outlined for the types of eligible institutions. Excluded from coverage under the Foster Care - Title IV-E Program are public child care institutions accommodating more than 25 children, detention facilities, forestry camps, training schools, and facilities operated primarily for the purpose of detention of children who are determined to be delinquent.

We noted that costs associated with ineligible activities were charged to the Foster Care - Title IV-E Program. Our review disclosed that the Child Welfare Division performed licensing activities at facilities that were not eligible for reimbursement under the Foster Care - Title IV-E Program. These ineligible activities involved children's camps, adult foster care camps, training schools, facilities exceeding

specified size requirements, and various detention related facilities that are not eligible for any Title IV-E Program funds.

The Family Independence Agency (FIA) is the primary recipient of the federal Title IV-E grant. FIA passes a portion of the Title IV-E grant through to CIS for the licensure of foster care homes and child placing agencies. As a pass-through agency, FIA shares the responsibility for the accountability of these funds and for ensuring that its subrecipients expend awards in accordance with applicable laws, regulations, and provisions of contracts and grants. OMB Circular A-133 requires agencies that pass through federal funds to inform each subrecipient of the *CFDA* title and number, the award name and number, the award year, and the name of the federal agency. In addition, OMB Circular A-133 requires pass-through agencies to advise subrecipients of requirements imposed on them by federal laws, regulations, and provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through agency. We noted that there is no grant agreement in place between CIS and FIA for the use of the Title IV-E grant funds.

As a recipient of federal funds in excess of \$300,000, CIS is subject to the requirements of the federal Single Audit Act. As part of those requirements, OMB Circular A-133 requires auditees to maintain internal control over federal programs that provides reasonable assurance that the auditees are managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of their federal programs. Also, auditees are to comply with laws, regulations, and provisions of contracts or grant agreements related to each of their federal programs. As a result, even in the absence of a grant agreement with FIA, CIS was still responsible for ensuring that the federal program was operated in compliance within the laws and regulations governing it and that only allowable activities were charged to the federal Foster Care - Title IV-E Program.

## **RECOMMENDATION**

We recommend that CIS improve its internal control to ensure that charges made to the federal Foster Care - Title IV-E Program are for allowable activities in compliance with federal requirements.

## **FINDING (630002)**

### **2. Nursing Home Surveys and Complaint Investigations**

U.S. Department of Health and Human Services	CFDA: 93.777/93.778 Medicaid Cluster
Award Number: 05-9805-MI-5000 05-9805-MI-5001 05-9805-MI-5048	Award Period: 10/1/97 - 9/30/98 10/1/98 - 9/30/99
Pass-Through Agency: Family Independence Agency and Department of Community Health	Questioned Costs: \$0

CIS's internal control did not ensure that annual nursing home surveys and nursing home complaint investigations were completed in accordance with federal regulations.

Our review disclosed:

- a. CIS did not perform annual surveys of nursing homes in a timely manner, as required by federal regulations.

Title 42, Part 488, sections 308(a) and 308(b) of the *Code of Federal Regulations* stipulate that the state agency must conduct a standard survey of each nursing home not later than 15 months after the last day of the previous standard survey. Furthermore, the statewide average interval between standard surveys must be 12 months or less.

We analyzed the annual survey interval for the 451 nursing homes licensed by CIS and noted that 128 (28%) of these facilities had survey intervals that exceeded the 15-month interval allowed by federal regulations. We also noted that the average survey interval for all nursing homes licensed by CIS was 13.7 months.

- b. CIS did not complete and/or document all procedures performed during annual nursing home surveys and complaint investigations, as required by federal regulations.

The Health Care Financing Administration, U.S. Department of Health and Human Services, provides CIS with a State Operations Manual listing the federal requirements that CIS is to follow when conducting annual surveys and complaint investigations.

We reviewed a sample of 64 annual surveys and reviewed the 100 associated revisits conducted by CIS and noted 148 instances in which required procedures were either not performed or not documented.

- c. CIS did not ensure that deficiencies noted during annual surveys or complaint investigations of nursing homes were corrected in a timely manner, as required by federal regulations.

The State Operations Manual requires CIS to conduct on-site revisits when deficiencies are noted in either an annual survey or a complaint investigation to verify that the nursing home facility achieved substantial compliance. In addition, the State Operations Manual requires CIS to notify a facility of its deficiencies or compliance within 10 calendar days of the last date of inspection.

We sampled 64 annual surveys and 127 complaint investigations. In addition to the original surveys and investigations, we also reviewed the 145 associated revisits required. Our review noted that CIS did not conduct timely revisits in 45 (33%) of the 138 instances when deficiencies were noted during annual surveys or complaint investigations. We also noted that CIS did not notify facilities of the results of annual surveys or complaint investigations within the 10 days specified by the State Operations Manual in 93 (38%) of 246 instances in which notification was required.

### **RECOMMENDATION**

We recommend that CIS improve its internal control to help ensure that annual nursing home surveys and nursing home complaint investigations are completed in accordance with federal regulations.

## **FINDING (630003)**

### **3. Subrecipient Monitoring**

U.S. Department of Health and Human Services	CFDA: 93.991 Preventive Health and Health Services Block Grant
Award Number: 98-B1-MI-PRVS 99-B1-MI-PRVS	Award Period: 10/1/97 - 9/30/98 10/1/98 - 9/30/99
Pass-Through Agency: Department of Community Health	Questioned Costs: \$0

CIS did not monitor subrecipients of the Preventive Health and Health Services Block Grant.

OMB Circular A-133 requires CIS to monitor subrecipient activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal regulations and to ensure that subrecipients take prompt corrective action on any audit findings.

CIS contracts with two subrecipients to administer examinations, conduct life support vehicle inspections, review training and continuing education programs, and provide technical assistance and information services for emergency medical services in the State. The contractual agreements between CIS and its subrecipients contain requirements for the submission of monthly activity reports. The monthly activity reports document the activities completed under the contract. We noted that one subrecipient did not submit 11 (46%) of the 24 required monthly activity reports during our audit period. We also noted that CIS did not conduct site visits or audits of the subrecipient to help ensure compliance with the contract agreement.

## **RECOMMENDATION**

We recommend that CIS monitor subrecipients of the Preventive Health and Health Services Block Grant.

**The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.**

Independent Auditor's Report on  
the Financial Schedules

July 7, 2000

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the accompanying schedule of General Fund revenues and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Consumer and Industry Services for the fiscal years ended September 30, 1999 and September 30, 1998. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The government operations of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for the Department of Consumer and Industry Services' General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.



In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the General Fund revenues and operating transfers and the sources and disposition of General Fund authorizations of the Department of Consumer and Industry Services for the fiscal years ended September 30, 1999 and September 30, 1998, on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 7, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial schedule, the schedule of certain General Fund assets and liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

Independent Auditor's Report on Compliance and  
on Internal Control Over Financial Reporting

July 7, 2000

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the General Fund financial schedules of the Department of Consumer and Industry Services for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated July 7, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control

components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

July 7, 2000

Ms. Kathleen M. Wilbur, Director  
Department of Consumer and Industry Services  
G. Mennen Williams Building  
Lansing, Michigan

Dear Ms. Wilbur:

Compliance

We have audited the compliance of the Department of Consumer and Industry Services with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the

circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

As described in Findings 1 and 2 in the accompanying schedule of findings and questioned costs, the Department did not comply with requirements regarding allowable activities that are applicable to the Foster Care - Title IV-E Program and the Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the Department to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the previous paragraph, the Department of Consumer and Industry Services complied, in all material respects, with the requirements referred to in the third previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the

reportable conditions described in the previous paragraph, we consider Findings 1 and 2 to be material weaknesses.

This report is intended solely for the information and use of the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.  
Auditor General

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of General Fund Revenues and Operating Transfers  
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
REVENUES		
Tax:		
Beer and wine	\$ 47,810,604	\$ 50,306,291
Insurance company premium tax	4,981,145	3,800,755
Liquor tax	<u>26,137,396</u>	<u>24,606,586</u>
Total Tax Revenues	<u>\$ 78,929,144</u>	<u>\$ 78,713,632</u>
Federal:		
Department of Energy	\$ 1,158,725	\$ 1,398,448
Department of Health and Human Services	18,190,024	12,591,483
Department of Housing and Urban Development	192,732	224,262
Department of Labor	10,435,801	10,020,197
Department of Transportation	314,082	283,393
Other federal agencies	<u>572,513</u>	<u>642,610</u>
Total Federal Revenues	<u>\$ 30,863,876</u>	<u>\$ 25,160,394</u>
Services	<u>\$ 1,622,079</u>	<u>\$ 1,691,103</u>
Licenses and permits	<u>\$ 118,079,961</u>	<u>\$ 117,121,091</u>
Miscellaneous	<u>\$ 16,197,327</u>	<u>\$ 13,524,769</u>
Total Revenues	<u>\$ 245,692,387</u>	<u>\$ 236,210,989</u>
OPERATING TRANSFERS IN		
Operating transfers (Note 2)	\$ 6,675,000	\$ 6,535,000
Statutory transfers from Liquor Purchase Revolving Fund	<u>105,346,643</u>	<u>96,707,428</u>
Total Operating Transfers In	<u>\$ 112,021,643</u>	<u>\$ 103,242,428</u>
Total Revenues and Operating Transfers In	<u>\$ 357,714,030</u>	<u>\$ 339,453,416</u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of Sources and Disposition of General Fund Authorizations  
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
<b>SOURCES OF AUTHORIZATIONS (Note 3)</b>		
General purpose appropriations	\$ 71,500,000	\$ 74,325,300
Budgetary transfers in (out)		8,444
Balances carried forward	53,814,388	46,660,533
Restricted financing sources	144,449,112	138,473,876
Less: Intrafund expenditure reimbursements	<u>(57,315)</u>	<u>(102,700)</u>
Total	<u>\$ 269,706,185</u>	<u>\$ 259,365,453</u>
 <b>DISPOSITION OF AUTHORIZATIONS (Note 3)</b>		
Gross expenditures and operating transfers out	\$ 206,213,195	\$ 203,307,180
Less: Intrafund expenditure reimbursements	<u>(57,315)</u>	<u>(102,700)</u>
Net expenditures and operating transfers out	<u>\$ 206,155,881</u>	<u>\$ 203,204,480</u>
Balances carried forward:		
Encumbrances carried forward	\$ 1,193,813	\$ 1,404,535
Multi-year projects	547,563	791,969
Restricted revenue - authorized	68,752	119,597
Restricted revenue - not authorized	<u>59,040,399</u>	<u>51,498,286</u>
Total balances carried forward	<u>\$ 60,850,526</u>	<u>\$ 53,814,388</u>
Balances lapsed	<u>\$ 2,699,779</u>	<u>\$ 2,346,585</u>
 Total	<u>\$ 269,706,185</u>	<u>\$ 259,365,453</u>

The accompanying notes are an integral part of the financial schedules.



## Notes to the Financial Schedules

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Department of Consumer and Industry Services for the fiscal years ended September 30, 1999 and September 30, 1998. The financial transactions of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences, General Long-Term Obligations, and Contingencies and Commitments.

For purposes of presenting the financial transactions of the Department in the accompanying financial schedules, the following entities and/or funds have been excluded from the Department's reporting entity:

- (1) The Liquor Purchase Revolving Fund. This Fund accounts for the proprietary operations of the Michigan Liquor Control Commission. The Commission issues annual financial statements and obtains a biennial financial audit.
- (2) The Michigan State Housing Development Authority (MSHDA), including its federal financial assistance programs. MSHDA issues annual audited financial statements and also obtains a biennial Single Audit.

- (3) The Michigan Unemployment Compensation Fund, including federal financial assistance; the Michigan Employment Security Act - Administration Fund, including federal financial assistance; and the Michigan Employment Security Act Contingent Fund. These funds receive separate annual financial audits and a biennial Single Audit.
- (4) Various funds: Safety Education and Training Fund; Uninsured Employers' Security Fund; State Construction Code Fund; Homeowner Construction Lien Recovery Fund; Second Injury Fund; Silicosis, Dust Disease, and Logging Industry Compensation Fund; Self-Insurers' Security Fund; Utility Consumer Representation Fund; Workers' Disability Compensation - Multiple Trust Funds; and Insurance Carrier Deposits Fund. These funds receive no federal financing and are periodically audited by the Office of the Auditor General.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenues and operating transfers and the sources and disposition of authorizations for the Department of Consumer and Industry Services' General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

Note 2 The operating transfers are from the Liquor Purchase Revolving Fund. These transfers are for grants to cities, villages, and townships with State-owned facilities for fire protection services.

Note 3 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Balances carried forward: Authorizations for multi-year projects, encumbrances, restricted revenue - authorized, and restricted revenue - not authorized that were spent as of the end of the prior fiscal year. These authorizations are available for expenditure in the current fiscal year for the purpose of the carry-forward without additional legislative authorization, except for the restricted revenue - not authorized.
- c. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- d. Encumbrances: Authorizations carried forward to finance payments for goods or services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.
- e. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry-forwards of this type are boiler fees revenue (\$3.4 million and \$3.5 million for fiscal years 1998-99 and 1997-98, respectively), corporation and securities fees revenue (\$6.9 million and \$7.7

million for fiscal years 1998-99 and 1997-98, respectively), remonumentation fees revenue (\$7.2 million and \$4.9 million for fiscal years 1998-99 and 1997-98, respectively), and insurance regulation fees revenue (\$10.2 million and \$6.7 million for fiscal years 1998-99 and 1997-98, respectively).

- f. Balances lapsed: Department authorizations that were unexpended and unobligated at the end of the fiscal year. These amounts are available for legislative appropriation in the subsequent fiscal year.

# SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES  
Schedule of Certain General Fund Assets and Liabilities  
As of September 30

	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>		
Due from federal agencies	\$ 7,122,404	\$ 6,774,103
Due from local units	\$ 1,999	
Taxes receivable	\$ 2,494,416	\$ 4,041,524
Other current assets	\$ 1,870,162	\$ 5,143,225
 <b>LIABILITIES</b>		
Accounts payable	\$ 11,843,652	\$ 21,002,729
Deferred revenue	\$ 798,457	\$ 870,716
Amounts due to other funds		\$ 29,669

This schedule of certain General Fund assets and liabilities is not a balance sheet and is not intended to report financial position. This schedule presents certain General Fund assets and liabilities that result from the operations of, and are the responsibility of, the Department of Consumer and Industry Services. The schedule excludes certain other assets, such as equity in Common Cash and cash in transit, and certain other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

**DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES**  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 1997 through September 30, 1999

For the Fiscal Year Ended September 30, 1998					
<u>Federal Agency/Program or Cluster</u>	<u>CFDA (2) Number</u>	<u>Pass-Through Identification Number</u>	<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>
<b><u>U.S. Department of Labor</u></b>					
Direct Programs					
Compensation and Working Conditions	17.005		\$ 154,930	\$	\$ 154,930
Occupational Safety and Health - State Program	17.503		8,677,768		8,677,768
Consultation Agreements	17.504		1,194,770		1,194,770
Mine Health and Safety Grants	17.600		5,291	106,000	111,291
<b>Total U.S. Department of Labor</b>			<b>\$ 10,032,759</b>	<b>\$ 106,000</b>	<b>\$ 10,138,759</b>
<b><u>U.S. Department of Transportation</u></b>					
Direct Program					
Pipeline Safety	20.700		\$ 243,408	\$	\$ 243,408
<b>Total U.S. Department of Transportation</b>			<b>\$ 243,408</b>	<b>\$ 0</b>	<b>\$ 243,408</b>
<b><u>National Foundation on the Arts and the Humanities</u></b>					
Direct Program					
Promotion of the Arts - Partnership Agreements	45.025		\$ 892	\$ 520,608	\$ 521,500
<b>Total National Foundation on the Arts and the Humanities</b>			<b>\$ 892</b>	<b>\$ 520,608</b>	<b>\$ 521,500</b>
<b><u>U.S. Department of Energy</u></b>					
Direct Programs					
National Energy Information Center	81.039		\$ 5,911	\$	\$ 5,911
State Energy Program	81.041		530,936	425,352	956,288
Energy Conservation for Institutional Buildings	81.052			243,459	243,459
National Industrial Competitiveness through Energy, Environment, and Economics	81.105			192,789	192,789
<b>Total U.S. Department of Energy</b>			<b>\$ 536,847</b>	<b>\$ 861,600</b>	<b>\$ 1,398,447</b>
<b><u>U.S. Department of Health and Human Services</u></b>					
Pass-Through Program (3)					
Medicaid Cluster					
State Survey and Certification Health Care Providers and Suppliers	93.777		\$ 4,528,225	\$	\$ 4,528,225
Medical Assistance Program (Medicaid)	93.778		4,231,860		4,231,860
Total Medicaid Cluster			<b>\$ 8,760,085</b>	<b>\$ 0</b>	<b>\$ 8,760,085</b>
Direct Programs					
Emergency Medical Services for Children	93.127		\$ 1,022	\$ 86,133	\$ 87,155
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Levels in Children	93.197		86,696		86,696
Occupational Safety and Health Research Grants	93.262		229,838		229,838
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919		13,100		13,100

This schedule continued on next page.

<u>For the Fiscal Year Ended September 30, 1999</u>			
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$ 141,142	\$	\$ 141,142	\$ 296,072
8,955,863		8,955,863	17,633,631
1,291,142		1,291,142	2,485,912
3,970	87,725	91,695	202,986
<u>\$ 10,392,117</u>	<u>\$ 87,725</u>	<u>\$ 10,479,842</u>	<u>\$ 20,618,601</u>
\$ 314,082	\$	\$ 314,082	\$ 557,490
<u>\$ 314,082</u>	<u>\$ 0</u>	<u>\$ 314,082</u>	<u>\$ 557,490</u>
\$	\$ 570,100	\$ 570,100	\$ 1,091,600
<u>\$ 0</u>	<u>\$ 570,100</u>	<u>\$ 570,100</u>	<u>\$ 1,091,600</u>
\$ 6,467	\$	\$ 6,467	\$ 12,378
615,389	464,596	1,079,985	2,036,273
			243,459
	72,275	72,275	265,064
<u>\$ 621,856</u>	<u>\$ 536,871</u>	<u>\$ 1,158,727</u>	<u>\$ 2,557,174</u>
\$ 4,960,231	\$	\$ 4,960,231	\$ 9,488,456
3,317,425		3,317,425	7,549,285
<u>\$ 8,277,656</u>	<u>\$ 0</u>	<u>\$ 8,277,656</u>	<u>\$ 17,037,741</u>
\$	\$	\$	\$ 87,155
(5,940)		(5,940)	80,756
127,372		127,372	357,210
14,355		14,355	27,455



**DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES**

Schedule of Expenditures of Federal Awards (1)

For the Period October 1, 1997 through September 30, 1999

*Continued*

<u>For the Fiscal Year Ended September 30, 1998</u>					
<u>Federal Agency/Program or Cluster</u>	<u>CFDA (2)</u> <u>Number</u>	<u>Pass-Through</u> <u>Identification</u> <u>Number</u>	<u>Directly</u> <u>Expended</u>	<u>Distributed to</u> <u>Subrecipients</u>	<u>Total Expended</u> <u>and Distributed</u>
Clinical Laboratory Improvement Act	93.5002 (4)		\$ 339,276	\$	\$ 339,276
Inspection of Mammography Facilities for Compliance	93.2234421 (4)		319,426		319,426
OASIS	93.5005 (4)				
Total Direct Programs			<u>\$ 989,358</u>	<u>\$ 86,133</u>	<u>\$ 1,075,491</u>
Other Pass-Through Programs					
Child Care and Development Block Grant (CCDBG)	93.575	G96BIMICARE	\$ 831,000	\$	\$ 831,000
Foster Care - Title IV-E	93.658	G9701MI1401	1,139,531		1,139,531
Preventive Health and Health Services Block Grant	93.991	98-B1-MI-PRVS		705,200	705,200
Total Other Pass-Through Programs			<u>\$ 1,970,531</u>	<u>\$ 705,200</u>	<u>\$ 2,675,731</u>
<b>Total U.S. Department of Health and Human Services</b>			<u><b>\$ 11,719,974</b></u>	<u><b>\$ 791,333</b></u>	<u><b>\$ 12,511,307</b></u>
<b><u>U.S. Department of Housing and Urban Development</u></b>					
Direct Program					
Manufactured Home Construction and Safety Standards	14.171		\$ 187,369	\$	\$ 187,369
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>\$ 187,369</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 187,369</b></u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$ 22,721,249</b></u>	<u><b>\$ 2,279,541</b></u>	<u><b>\$ 25,000,790</b></u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Consumer and Industry Services and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) The federal grants received under the Medicaid Cluster are received from the Department of Community Health for the State Survey and Certification of Health Care Providers and Suppliers and for a portion of the Medical Assistance Program. The remaining portion of the Medical Assistance Program federal grant is received as a pass-through from the Family Independence Agency.

(4) CFDA number not available. Number derived from federal agency number and grant or contract number, if available.

For the Fiscal Year Ended September 30, 1999

<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$ 294,822	\$	\$ 294,822	\$ 634,098
333,374		333,374	652,800
<u>60,287</u>		<u>60,287</u>	<u>60,287</u>
<u>\$ 824,270</u>	<u>\$ 0</u>	<u>\$ 824,270</u>	<u>\$ 1,899,761</u>
\$ 7,007,600	\$	\$ 7,007,600	\$ 7,838,600
1,268,257		1,268,257	2,407,788
	<u>705,200</u>	<u>705,200</u>	<u>1,410,400</u>
\$ 8,275,857	\$ 705,200	\$ 8,981,057	\$ 11,656,788
<u><b>\$ 17,377,783</b></u>	<u><b>\$ 705,200</b></u>	<u><b>\$ 18,082,983</b></u>	<u><b>\$ 30,594,290</b></u>
\$	\$	\$	\$ 187,369
<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 0</b></u>	<u><b>\$ 187,369</b></u>
<u><u>\$ 28,705,838</u></u>	<u><u>\$ 1,899,896</u></u>	<u><u>\$ 30,605,734</u></u>	<u><u>\$ 55,606,524</u></u>

## OTHER REQUIRED SCHEDULES

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

Summary Schedule of Prior Audit Findings

As of July 7, 2000

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

Audit Findings That Have Been Fully Corrected

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 1

**Finding:** The Department of Consumer and Industry Services (CIS) did not develop and implement a proper internal control structure for the Personnel-Payroll Information System for Michigan (PPRISM) functions.

**Comments:** CIS implemented compensating controls over its PPRISM functions.

**PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

Audit Findings That Have Been Fully Corrected

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 2

**Finding:** CIS's internal control structure did not ensure that personnel-payroll cost distributions to State and federal programs were documented in accordance with federal requirements.

**Comments:** Corrective action was completed during the prior audit period to ensure that program staff properly maintained accurate time sheets.

**Audit Period:** October 1, 1995 through September 30, 1997

**Finding Number:** 3

**Finding:** CIS did not establish and maintain an effective internal control structure to reasonably ensure that it obtained and reviewed audit

reports of its subrecipients as required by the Single Audit Act of 1984.

**Comments:**

CIS amended its procedures to ensure that grantees are aware of the need to submit their Single Audits when necessary and to ensure that required reports are collected and reviewed.

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

Corrective Action Plan

As of October 24, 2000

**FINDINGS RELATED TO THE FINANCIAL SCHEDULES**

There were no audit findings related to the financial schedules for fiscal years 1997-98 and 1998-99.

**FINDINGS RELATED TO FEDERAL AWARDS**

<b>Finding Number:</b>	630001
<b>Finding Title:</b>	Allowable Activities
<b>Management Views:</b>	We agree with the recommendation. However, we also reiterate that the Family Independence Agency's (FIA's) responsibility as the primary recipient of the federal Title IV-E funds was to inform the Department of Consumer and Industry Services (CIS) of the federal requirements in regards to the type of activities eligible for reimbursement under the Foster Care - Title IV-E Program. No such advice or formal agreement was provided to CIS regarding the use of the funds. This is also pointed out in the body of this audit finding. After the Executive Order was implemented transferring the Title IV-E Program to CIS, we were given verbal assurances from FIA and the Department of Management and Budget (DMB) that the regulatory activities performed/completed and charged to the Title IV-E Program were eligible for reimbursement. We relied on their assurances in our implementation of the Title IV-E Program.
<b>Corrective Action:</b>	We will obtain a final resolution after discussions with FIA and the DMB Office of the Budget.
<b>Anticipated Completion Date:</b>	Completed September 30, 2000
<b>Responsible Individual:</b>	John Suckow

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**Finding Number:**

630002

**Finding Title:**

Nursing Home Surveys and Complaint Investigations

**Management Views:**

We agree with the recommendation. CIS has since reorganized the long-term care area of the Bureau of Health Systems (BHS) to allow a more focused approach to the standard long-term care survey process.

Additional staffing has been requested and approved.

Additional personnel have been hired and are proceeding through the necessary training programs.

BHS had developed a computer report that allows managers to track the due dates of standard long-term care surveys. Since the institution of these changes in January 2000, BHS has met the federal guidelines requiring standard surveys within a 12-month average interval. In addition, these changes have also assisted CIS in performing timely revisits where deficiencies were noted during annual surveys or complaint investigations.

Although all required procedures were performed during annual surveys and complaint investigations, they were not always documented. We have re-emphasized to all surveyors that all required procedures should be documented.

CIS has also made adjustments to its procedures in an effort to meet the federal requirement that facilities are notified of deficiencies within 10 working days of the survey. As the new surveyors are trained and able to more fully participate in the survey process, the timeliness of notification should increase.

CIS has incorporated these three federal guidelines into its State performance measures. The performance

measures will be monitored internally on a monthly basis and submitted to CIS quarterly, as required.

**Corrective Action:** Completed  
**Anticipated Completion Date:** Completed  
**Responsible Individual:** Walter Wheeler III

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**Finding Number:** 630003  
**Finding Title:** Subrecipient Monitoring  
**Management Views:** Regarding the contractual requirement to submit monthly activity reports, the requirement has been reinforced in writing and the contractor has been compliant. The Emergency Medical Services (EMS) Section monitors the monthly report requirement closely.

Regarding the U.S. Office of Management and Budget (OMB) Circular A-133 requirement to conduct audits and site visits to help ensure compliance with contract agreements, BHS is in the process of evaluating this requirement in light of the limited number of staff in the EMS Section. Regardless, the Section will institute a site visit audit procedure, consistent with the above referenced requirement, in fiscal year 2000-01.

**Corrective Action:** Completed  
**Anticipated Completion Date:** Completed  
**Responsible Individual:** Walter Wheeler III

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## Glossary of Acronyms and Terms

BHS	Bureau of Health Systems.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CIS	Department of Consumer and Industry Services.
DMB	Department of Management and Budget.
EMS	Emergency Medical Services.
FIA	Family Independence Agency.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
low-risk auditee	As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material misstatement	A misstatement in the financial schedules that causes the schedules to not present fairly the financial position or the results of operations or cash flows in conformity with generally accepted accounting principles.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule amounts.
material weakness	A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
mission	The agency's main purpose or the reason the agency was established.
MSHDA	Michigan State Housing Development Authority.
OASIS	Outcome and Assessment Information Set.
OMB	U.S. Office of Management and Budget.
PPRISM	Personnel-Payroll Information System for Michigan.
qualified opinion	An auditor's opinion in which the auditor identifies a scope limitation or one or more instances of misstatements that impact the fair presentation of the financial schedules in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor expresses reservations

about the audited agency's compliance, in all material respects, with the cited requirements that are applicable to each major federal program.

**questioned costs**

Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.

**reportable condition**

A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect CIS's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

**Single Audit**

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

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## unqualified opinion

An auditor's opinion in which the auditor states, without reservation, that the financial schedules are fairly presented in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.